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E.O. 12958: N/A
TAGS: ETRD ECON ELAB KTEX CS
SUBJECT: COSTA RICA: SNAPSHOT OF TEXTILE SECTOR

REF: A) STATE 114799 B) SAN JOSE 1783

¶1. SUMMARY: The textile sector in Costa Rica is a relatively small yet productive industry, accounting for approximately 7.4 percent of manufacturing exports and 6.2 percent of manufacturing employment in 2006. Although textile export receipts in Costa Rica have declined by approximately 23.7 percent since 2002, the industry has successfully maintained its economic viability through product specialization, access to a highly skilled and efficient workforce, and geographic proximity to the U.S. market. Furthermore, the Costa Rican textile industry is reliant on the US market and the preferential treatment it receives under the Caribbean Basin Trade Promotion Act (CBTPA). The U.S. accounted for 86.4 percent of its total textile exports in 2006 and CBTPA lowers the U.S. tariff that applies to most of its products from 18 percent to zero. END SUMMARY.

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COSTA RICAN TEXTILE INDUSTRY STATISTICS
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¶2. In response to Ref A, post collected the following trade data, which provides context and a snapshot of the state of the industry in Costa Rica:

C.R. Textile Exports	2005	2006	%CHG
GDP, ($MM)	19,824	21,390	8%
Total Exports, ($MM)	7,005	8,198	17%
Total Imports, ($MM)	9,807	11,576	18%
Manufacturing Exports, ($MM)	5,369	6,317	18%
Manufacturing Imports, ($MM)	9,090	10,795	19%
Textile Exports, ($MM)	616	557	-10%
As % of Manufacturing Exports	11.5%	8.8%	-23%
Textile Exports to U.S., ($MM)	540	481	-11%
As % of Textile Exports	87.7%	86.4%	-1%

C.R. Textile Employment	2005	2006	
Total Employment (pers)	1,776,903	1,829,928	3%
Manufacturing Employment (pers)	242,683	243,897	1%
Textile Employment (pers)	15,000	15,000	0%
As % of Manufacturing Employment	6.2%	6.2%	0%

C.R. Cttn Tex., Rel. Exp to US ($MM)	2005	2006	
62-APRL ARTCLS, ACCES; NOT KNIT	246	233	-5%
61-APRL ARTCLS, ACCES; KNIT/CROCHET	238	232	-3%
63-TEX. ART NESOI; NDLECRFT SETS; WRN TXT ART	0.8	0.7	-13%
60-KNITTED OR CROCHETED FABRICS	0.4	0.3	-25%
Total ($MM)	485	466	-4%
As % of Manufacturing Exports	9.0%	7.4%	-18%

C.R. Cttn Tx, Rel. Imp from US ($MM) 2005 2006

61-APRL ARTCLS, ACCES; KNIT/CROCHET	82	73	-11%
62-APRL ARTCLS, ACCES; NOT KNIT	102	58	-43%
60-KNITTED OR CROCHETED FABRICS	31	28	-10%
63?TEX. ART NESOI; NDLECRFT SETS; WRN TXT ART	4	5	7%
Total	220	164	-25%
As % of Manufacturing Imports	2.2%	1.4%	-36%

Note: ($MM) denotes millions of USD.
Note: (pers) denotes persons.
Note: Totals may vary from column sums due to rounding.
Source: PROCOMER, BCCR, CIA Factbook, and tse.export.gov.

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EMPLOYMENT DATA
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¶3. According to GOCR and industry sources, the total number of people directly employed in the textile industry ranges from 11,000 to 15,000. The GOCR Social Security Agency?s official estimate is 11,000 while industry experts claim at least 15,000 direct jobs as well as another 5,000 indirect jobs in supporting economic activity such as transportation and facility maintenance. There are approximately 40 companies in the industry in Costa Rica. Of the estimated 15,000 employees, approximately two thirds are employed by four large companies including Sara Lee (and its contractors), Vanity Fair (VF), Jockey, and Borkar. Products are varied and include suits, casual style pants, knit shirts, underwear, and clothes with high tech sport fabrics. For the 2006 calendar year, Costa Rica exported USD 557 million of textiles, of which USD 481 million went to the U.S. Seventy seven percent of total exports to the U.S. used almost exclusively U.S. inputs to comply with CBTPA rules.

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IMPORTANCE OF CAFTA AND CBTPA
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¶4. The continued economic viability of the Costa Rican textile industry is viewed as contingent on the nation?s timely implementation of the Dominican Republic?Central America Free Trade Agreement (CAFTA-DR). The preferential treatment presently extended to Costa Rica?s textile industry through CBTPA is scheduled to expire on October 1, 2008 and implementation of CAFTA-DR prior to that date will, in effect, make those provisions permanent. If CAFTA-DR is not implemented in Costa Rica prior to that date, expectations are that its textile industry will (1) lose its economic competitiveness with CBTPA?s expiration and (2) not be reconsidered for CBTPA coverage until after the next U.S. administration enters office on January 20,
¶2009.

¶5. Due to the uncertainty surrounding this scenario, Costa Rican textile exporters sensitive to the U.S. market have declared their intention to move the entirety of their operations to other CAFTA-DR countries if the agreement fails to be implemented locally. Industry sources note that a significant portion of textile employment -- greater than 12,000 -- could possibly move outside of Costa Rica without CAFTA-DR. CAFTA-DR?s ratification in the October 7 referendum was a welcome first step for CBTPA-dependent exporters, but they need the agreement to be implemented. Therefore, some textile producers and the textile exporters? chamber are poised to lobby the national legislature for timely passage of implementing legislation.

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QUESTIONS AND ANSWERS
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¶6. As requested in Paragraph 5 of Ref A, Post offers the following responses. We believe this responds to Department's questions, but if supplementary information is required, please advise.

IMPACT OF INTERNATIONAL COMPETITON:

Q1: Are (Costa Rican) products receiving lower prices due to heightened international competition? Have the manufacturers received more, less, or the same number of orders as in years past? Have foreign investors, including Asian investors, closed factories or otherwise pulled out of local production?

A1: Prices in the apparel market are declining not only due to the increase in competition, but also because of more effective and efficient production processes and the decline in prices of raw materials, especially fabric. In Costa Rica the companies are receiving the same number of orders as last year, but the overall value of textile and apparel production is decreasing due to the drop in prices.

Industry sources say that there have not been any Asian investors or Asian-owned textile or apparel manufacturers in Costa Rica for several years. A U.S.-owned producer of relatively low-end children?s clothing, Garan, is moving its Costa Rican operation to El Salvador and to contractors in China.

IMPACT OF SAFEGUARDS AND RESTRICTIONS:

¶7. Q2: Have U.S. and EU restrictions on certain exports of textiles and apparel from China, effective through 2007/2008, affected export prospects for (Costa Rican) manufacturers?

A2: In the case of socks, industry experts said the safeguards implemented by the U.S. had a positive effect by creating uncertainty, at least in the minds of U.S. buyers, about the potential supply of products from China, thus making supply from Costa Rican companies as more reliable (and more desirable).

¶8. Q3: Has the host government implemented, or is it considering implementing, safeguards or other measures to reduce growth of imports of Chinese textiles and apparel products into (Costa Rica)?

A3: Industry experts revealed that they have discussed the possibility of implementing safeguards in textiles. However, this is a very expensive and time-consuming process in which the sector has to prove damages. In 1995, the Costa Rican Textile Chamber, an industry association, tried to make such a case, but was not successful. Furthermore, the understaffed Ministry of Economy, Industry, and Trade lacks personnel to perform such reviews. As a result, neither the industry nor the GOCR is thinking about pursuing safeguards at this time. Also, in the wake of officially recognizing the PRC, the GOCR plans on expanding its commercial ties to China (Ref B). (Trade is one of the items on President Oscar Arias?s agenda during his October 22-29 visit to China.)

IMPACT ON TEXTILE WORKFORCE:

¶9. Q4: Does the (GOCR) have policies or programs in place to deal with any dislocated workers in the sector resulting from increased competition?

A4: Currently, the GOCR does not have a policy or program to specifically accommodate dislocated workers resulting from CAFTA-DR. The only form of unemployment compensation is severance pay. If, for any reason, workers lose their jobs, they are entitled to one month?s salary for every year of work, paid by the employer. There will be, however, additional monies available to the GOCR for labor and environment capacity building once CAFTA-DR is ratified and implemented. The Administration committed to USD 20 million FY 2005 and USD 40 million FY 2006 ? FY 2009 for CAFTA-DR countries.

¶10. Q5: Has increased global competition affected (Costa Rican) labor conditions by causing employers to reduce wages, seek flexibility from government required minimum

wages, or adversely affected union organizing?

A5: Because Costa Rican textile and apparel manufacturers have survived due to finding niche products, emphasizing efficiency, and employing highly-skilled personnel, neither labor standards nor wages have decreased. Workers are relatively paid well and their standard of living is high compared to their neighbors in Central America. Since the majority of exports go to the U.S., labor standards have increased due to complying with labor certification standards required by major U.S. buyers. Also, given Costa Rica?s strong sense of social egalitarianism, any proposals to suppress the minimum wage are highly unlikely to be approved.

GOCR ACTIONS TO IMPROVE COMPETITIVENESS:

¶11. Q6: Has the host government or private industry taken action to increase (Costa Rican) competitiveness, such as improving infrastructure, reducing bureaucratic requirements, developing the textiles (fabric production) industry, moving to higher-valued goods, or identifying niche markets. Does Post think that the host government or private industry?s strategy will be successful?

A6: During the 1990s, the Costa Rican textile industry contracted in part due to company dislocation to Mexico due to NAFTA. The remaining manufacturers were the more efficient and/or specialized. Today, the Costa Rican Textile Chamber works actively with the Ministry of Foreign Trade (COMEX) and Customs to increase the efficacy and efficiency of the exporting and importing process. Customs is currently implementing a new registration system for imports, although it is not yet up and running. The quasi-government National Association of Industrial Textile Exporters works with government and private industry to educate the industry on the different importing/exporting regimens such as the Special 807 requirements and CAFTA-DR requirements. The Textiles Chamber also works with private industry companies to upgrade their capabilities, production methods, and services for customers.

Many of the companies in Costa Rica have already found niche markets or have begun to offer a broader range of services to their customers. For example, Capas Vaqueros manufactures GORETEX for waterproof jackets and garments, one of very few companies outside of the U.S. that is authorized to do so. Cordero y Chavarria transitioned from only performing cutting and trimming services to offering design and manufacturing services for exercise wear. Coloplast started making prosthesis bras for women who have had mastectomies and now also makes swimwear for the same clientele.

With respect to the survival of the textile and apparel industry in Costa Rica, the most productive step the GOCR can take is to expeditiously implement CAFTA-DR, which will facilitate access to the U.S. market. Lack of sufficient infrastructure is an important issue and affects all manufacturers, especially those that are located farther from the port of Limon or the airport in San Jose. Infrastructure improvements are planned to follow the implementation of CAFTA-DR as part of the Arias administration?s development agenda.

IMPACT OF CAFTA-DR:

¶12. Q7: If (Costa Rica) is a partner in a free trade agreement or a beneficiary of a preference program such as AGOA, CBTPA, CAFTA, or ATPDEA, what impact does the program have on local sector industry competitiveness?

A7: Most companies rely on the preferences granted under CBI/CBTPA to compete against lower cost producers such as China. The industry imports approximately 77 percent of its raw materials from the U.S. and exports most of its finished products to the U.S., which amounted to approximately USD 481 million in 2006, down from 540

million in 2005. The price factor, increased Chinese competition, and a decrease in demand contributed to the drop in value of exports to the US. Seventy seven percent of this amount was exported to the U.S. under the Special 807 program. Industry experts see CAFTA-DR as critical for the survival of the industry in Costa Rica and the rest of Central America. If Costa Rica does not implement CAFTA-DR before CBTPA expires in September 2008, it is unlikely that the Costa Rican textile industry will survive with the exception of a few special niche products and high-valued items. As noted in para 5, Costa Rican textile producers have stated their willingness to move operations outside of Costa Rica if they cannot produce without the benefit of trade preferences or CAFTA-DR.

¶13. Q8: Overall, if not already addressed, does Post think that (Costa Rica) can be competitive in textiles and apparel exports with the end of global textiles and apparel quotas?

A8: With respect to the threat due to low labor costs and expanding production in China, the full effects of the expiration of global quotas in Costa Rica have yet to be fully understood. Costa Rica has not yet seen a large migration of textile jobs off shore. This is due in part to high efficiency, production of niche products, and the benefits of the Caribbean Basin Trade Preference Act (CBTPA). However, industry experts told us that in 2003 CarterTex moved its operation from Costa Rica to Mexico and then later to China due to lower labor costs; this despite the fact that the factory in Costa Rica was much more efficient than either of those in Mexico or China. If CAFTA-DR is not implemented and the benefits of CBTPA go away, experts believe the Costa Rican textile industry will significantly contract. The loss of more than 12,000 jobs from the textile industry in Costa Rica would have a cascading multiplier effect on supporting businesses and consumer consumption. Costa Rican textile industry representatives thus are some of the most fervent supporters of CAFTA-DR because the agreement makes permanent the tariff-free exporting to the U.S. of their products.

¶14. Q9: CAFTA specific: Has the delay in implementation for a few countries had a tangible effect on exports to the U.S.?

A9: Overall, the delay in implementation for a few countries has not had a concrete effect on exports to the U.S. from Costa Rica. In general, exports to the U.S. are growing; however, non-traditional exports such as textiles and clothing are decreasing. This can be attributable to China?s increased competition and also a decrease in demand. The perception within the Costa Rican textile industry is that if CAFTA-DR is not implemented and if CBTPA expires, the industry?s economic competitiveness will diminish rapidly. The prevailing opinion among industry experts is that CAFTA-DR is necessary for industry survival in Costa Rica.

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